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Comments before the California Performance Review Commission
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Co-Chairs Hauck and Kozberg, and Commissioners, thank you for the invitation to speak before you today. The Little Hoover Commission appreciates the opportunity to discuss the work it has done in recent years to improve health and human service programs.

The Little Hoover Commission has not had an opportunity to deliberate on the specific findings and recommendations of the California Performance Review. Therefore my comments will be limited to recommendations of the Commission that are relevant to the task before you.

Along with my prepared comments, I have provided a copy of the executive summary of the Commission's May 2004 report on health and human services. This report follows numerous Commission studies on foster care, drug treatment, mental health, crime and violence prevention, public health, disaster preparedness, child support, child care and other related subjects, each with specific recommendations for improvement.

I also have attached a copy of the executive summary of a July 2004 report on a critical path to improving performance and restoring trust. California has a weak record on large scale reforms. This report outlines a strategy to overcome the political stalemate and bureaucratic inertia that have undermined previous reform initiatives.

Complete copies of Commission reports can be downloaded from its Web site at www.lhc.ca.gov/lhc.html.

In my testimony I will convey why the Commission believes reforms are necessary, the considerations that should drive these reforms and some of the specific reforms identified by the Commission.

Prosperity depends on accessible, cost-effective health and human services.

Health and human services should move Californians from dependence to independence. They can stop illnesses from stopping life. They can support vibrant communities by preventing institutionalization. And they can intervene when addiction, abuse and trauma smother opportunity. Health and human services safeguard California's future and quality programs are a smart investment that can hold down other public costs.

The annual economic impact of substance abuse in California alone is some $33 billion. In 1990, the annual indirect costs of inadequate mental health care was estimated at nearly $9 billion in California. High-quality, effective services help people retain their independence, employment and care for their families.

And the consequences of poor performance are profound: Weak performance threatens the health and quality of life of all Californians. Stifled progress undermines economic growth – because more Californians could be moved toward self-sufficiency and because tax dollars are wasted on ineffective strategies.

The case for change is compelling.

California's performance on a range of health and human service indicators is among the lowest in the nation. Although California has a history of innovation and pockets of excellence around the State, overall results are poor.

Hundreds of thousands of Californians are not safe. California ranks 36th in the nation for the number of children who experience abuse and neglect and 49th for the percentage removed from their homes as a result.[i] The state is 24th in the nation for crime overall and 41st for violent crime, including homicide.[ii]

Californians struggle to remain healthy. One in six children in California does not have health insurance, ranking California 43rd in the nation for ensuring health coverage for its youngest residents.[iii] The State ranks 48th on health coverage for the population overall, with six million uninsured and another six million dependent on Medi-Cal.[iv]

Many Californians are overwhelmed by mental health needs. Some 400,000 children in California will go without needed mental health treatment this year. One in seven adults in California struggles with serious mental illness. But mental health care is rationed only to those with the most severe illnesses.[v]

The state has nearly the highest rate of illicit drug use in the nation.[vi] Yet California has the greatest gap between the demand for treatment and treatment resources.[vii]

Too many Californians struggle to learn. California is ranked 44th in the country for adult literacy and 42nd for high school completion rates.[viii] For hundreds of thousands of California children, effective health and human services will influence whether they are ready and able to learn.

California has one of the highest unemployment rates in the nation.[ix] One in seven of California's workers can only find part-time work.[x] One in five remain poor despite holding a job.[xi]

For the poorest Californians, affordable housing is an issue of survival. An estimated 360,000 Californians are homeless on any given day.[xii] Some 80,000 to

95,000 children are living in cardboard boxes, the family car or are shuttled from shelter to shelter because their families cannot afford minimal levels of housing.[xiii]

While some of these maladies are outside the direct purview of health and human service agencies, the public response to them is integral to the health, safety and well-being of struggling families who are involved in a range of government programs.

Added pressures are on the horizon

Over the next three years, the state's population is expected to grow by over half a million residents annually. Population growth alone will increase demand for services. But three trends suggest that demands will grow faster than overall population.

1. ***Poverty levels are expected to increase***. Poverty in California fell notably during the economic boom of the mid-1990s. But historically high poverty rates and persistently high immigration rates suggest that challenge will continue.

2. ***California continues to have a large number of children and high rates of child poverty***. In 2000, California was home to 10.7 million children. In 2005, that number will grow to 11.5 million.[xiv] While the overall growth rate for children in California may go down, the State will face added pressure to respond to a growing proportion of children living in poverty.

3. ***California's population is graying***. As baby boomers reach retirement age and beyond, the State will be faced with expanded demands for dependency care, additional health care costs and other quality of life issues. Services to older Californians made up nearly a quarter of Medi-Cal spending in 1998. The number of adults over 65 years old will more than double in size by 2030.

California's health care, mental health, drug and alcohol treatment programs, food stamp services, affordable housing efforts, developmental services and other programs are increasingly forced to turn people away, reduce services or limit reimbursements as demands for care outpace resources. Added pressures will further strain services.

The public investment is huge, and poor performance leads to even higher costs.

Annually, some $60 billion in state and federal funds go to health and human services. Additional billions are spent through education, juvenile and criminal justice, housing and other programs intended to address or respond to related health and human service needs. Inadequate mental health care results in thousands of clients ending up in jails and prisons with resulting increases in medical costs, parole costs and other expenditures. Placer County researchers discovered that inadequate dental care delayed learning among its youngest students, driving up educational costs and driving down educational performance. The State's affordable housing crisis undermines

progress in treating addiction, mental illness and reuniting children in foster care with their parents.

While state and local officials have forecast increasing costs and unmet needs, they have not systematically embraced strategies to improve performance. In program after program, the Commission has found that California is not taking advantage of tried and true strategies to improve performance, has failed to invest in prevention and inadequate collaboration among state and local agencies has undermined the effectiveness of existing efforts.

In its work on drug treatment programs, the Commission found growing consensus among prevention, treatment and law enforcement professionals that a strategic combination of all three components is essential to reducing alcohol and drug abuse and its costly consequences. Some 17 different state agencies have drug-related responsibilities, and every county has its own array of prevention, enforcement and treatment entities – from school districts and police departments, to community groups and service providers.

But true partnerships have not been formed and the State has not embraced the multi-agency responses that have proven successful elsewhere.

California has pioneered effective, efficient programs that can drive reforms.

California is home to hundreds of innovative programs and professionals who can detail the path to improving outcomes. Wraparound programs, system of care, integrated services and other strategies to tailor programs to unique needs can pay off. For nearly every challenge facing children, adults and families, an innovative provider or county official has found a way to respond. And the more assertive officials are finding ways to get around the rules to provide the best quality care possible.

But counties have been forced to turn to foundations, donations or specialty pots of money to do what cannot be done with the bulk of their funding – tailor care. And it is these small pots of funding that are expensive to administer, limited in their reach and most susceptible to cuts when the economy turns down. The result is that the most promising practices – even those that are the most cost-effective – are the least available.

But fractured authority, prescriptive funding and diffused accountability stifle performance.

There is scant funding for prevention or tailored care and little or no attention on what that funding produces. Funding concerns can be distilled into four central challenges:

Public funding is not responsive to evolving needs and emerging technologies. The bulk of funding is tied up in a handful of programs that operate according to policy decisions made years ago, even though many of those decisions no longer reflect current realities.

Funding is not tied to outcomes. Debates over budget cuts and increases earn national attention for their acrimony, but once allocation decisions are made, there is little discussion about how money is spent or whether services are effective.

Marginal revenue changes undermine program stability. Economic cycles, which drive the direction of marginal shifts in annual budgeting, have undue influence on program quality.

The State retains fiscal control, while local agencies are responsible for programs. The State typically makes allocation decisions, sets reimbursement rates, establishes eligibility rules and in some instances even dictates how many people must participate in group treatment programs. The State has maintained fiscal and administrative authority to ensure consistency across counties, to manage costs and safeguard funding for targeted clients. But these strategies are costly, hamper innovation and fail to ensure the desired consistency.

And rigid compliance monitoring focuses scarce resources on procedures and little attention on outcomes. County child welfare agencies alone handle more than 40 state forms, many of them mandatory, dealing with children and families. Across the major health and human service programs, more than 200 forms are used to gather information on clients, assess eligibility, authorize services and report information. Much of the information is duplicative and ineffective in creating accountability. The challenges include the following:

Actions, not outcomes, are tracked. The State has the capability to monitor whether children in foster care actually are in school, whether they graduate and if they find employment, their wages and tenure in jobs. But it does not. Instead, the State tracks contacts, time in care and whether foster homes are licensed.

Compliance is monitored, not effectiveness. Under California's drug Medi-Cal program the State dictates how many people must participate in group counseling sessions.[xv] Deviate from the rules and the State can deny payment, levy fines and increase scrutiny. But the State does not monitor whether particular programs work, increase employment opportunities or help families weather other challenges.

Dollars are tracked, not people. The state Department of Mental Health can document the cost of direct services, administrative costs and even the price of evaluation and research. But neither the State nor counties can report the results of those services, whether people are better off having received care or what it costs to serve them over time.

Monitoring is not driven by mission. Despite a mission to ensure care, state leaders and oversight agencies look the other way. Independent investigations have uncovered problems in state hospitals, county mental health systems and other programs that State agencies were aware of but went unaddressed.

All of these problems exist regardless of whether policy-makers have more resources to dedicate to these issues or less revenue to dedicate to these issues. All of these problems undermine efforts to increase efficiency and improve the quality of services. All of these problems are well understood, and some policy-makers have even tried to resolve them.

The Little Hoover Commission has recommended a series of reforms

Clear, statewide goals should drive county-based strategies to meet community needs.

The current health and human service system is a jumble of programs with competing priorities, disparate service delivery systems and dispersed authorities and responsibilities among dozens of state and local agencies. The result is an inability to work together toward shared goals. The lack of focused, persistent leadership has resulted in sporadic and piecemeal reforms that often only made matters worse.

The first task of leadership is to forge an agenda for meaningful improvements by establishing shared goals and imposing a collective discipline. Fundamental to that agenda is clarifying and streamlining the roles and responsibilities of state and local agencies.

The State must get its house in order.

The current organizational structure undermines quality and efficiency in three key ways:

Agency cannot fulfill its intended role. The size, complexity and political weight of individual departments undermine efforts by the agency to streamline operations, reduce competition and promote collaboration. The agency simply cannot compete with the departments and so the value of the agency structure is not realized.

Overlapping responsibilities, incongruent missions, operational silos hinder the State's capacity to ensure best use of local assistance funding. Competition, conflict and confusion among state departments inhibit efforts to develop a unified approach to supporting local programs. And local agencies are required to work through disparate rules and regulations emanating from multiple departments. For innovative and assertive local agencies, costs increase as reforms are delayed and

administrative costs escalate. For others, improvements are thwarted by state bureaucratic barriers – or not initiated at all – because they are not required.

State departments perform duplicate functions. Duplication results in increased costs from lost economies of scale and added complexity in working across programs. Improvements are delayed because of confusion over who is responsible for programs, outcomes and change. And opportunities are missed because departments compete rather than collaborate.

Resolving these structural challenges is essential to achieving two important goals: First and foremost, refocusing state operations to aid counties in the development of strong systems of care. State operations that facilitate strong systems of care will ensure the best use of the State's significant investment in local assistance. Second, improving internal operations. Streamlining state programs will reduce costs, improve effectiveness and allow administrators to focus on achieving overall health and human service goals.

Improvement will require a strong state-local partnership.

The state-local relationship in California is poisoned by distrust that has grown out of a history of shifting liability for poor outcomes, skirting fiscal responsibility and failing to negotiate in good faith. This distrust, combined with the reality of State and county entanglement in a network of fiscal and programmatic interdependence, prevents either level of government from taking responsibility to improve outcomes. California's 58 counties are further hindered by their diversity and thus limited ability to work in concert. State and local policy-makers must learn from history, simplify the distribution of responsibilities and hold each other accountable for outcomes.

State responsibilities. The State has far greater resources than the counties and thus certain responsibilities lend themselves to state control. The State is far more able to forecast the need for funding, grow the economy and ensure adequate resources for health and human service programs. The State is better positioned to address workforce shortages. And by virtue of its statewide authority, the State is well positioned to provide technical assistance and training, promote best practices, create incentives for innovation and excellence and monitor outcomes.

County responsibilities. Counties have a far better understanding of community priorities than the State and they bear the consequences when services fail or falter. Counties therefore are better positioned to provide services. But responsibility for providing services must be paired with the authority and discretion to get the job done. Ultimately, counties need the flexibility to design their service delivery systems to improve outcomes and reduce costs.

Policy-makers need to develop the next generation of realignment. The elements of this realignment need to include a concerted effort to move as much service delivery as possible to the county level. It needs to give counties the authority, and not just the

responsibility, to operate programs in ways that improve efficiency and accountability. The goal of this realignment should be a system of care to serve each community, organized around the needs of clients, operated by the counties in ways that exceed minimum standards and continuously improve.

Funding must recognize community realities, create incentives for improvement.

Virtually every debate about financial resources for health and human services begins with the assertion that programs are under-funded, in part because there are many legitimate unmet needs. But there will never be enough public money to meet all needs, particularly if public programs are not operating effectively.

The debate over financial resources should begin with California's goals, include all of the resources that are available to pursue those goals, and then focus on how available public funds are being spent. One essential principal must be to give the level of government responsible for serving Californians as much flexibility as possible in how those funds are spent. In exchange, the public and their policy-makers should be assured that resources are being spent on proven practices that improve lives at least possible cost.

Goals, not available funding, should drive programs. Because funding is allocated through scores of programs, which operate under disparate rules and organizational structures, the State and counties have little idea how much is spent on particular needs or what they are getting for their money. Modern financial management practices start with the establishment of clear goals: what do we want to achieve. Starting with goals could allow policy-makers to better marshal existing resources and identify additional resources where needed.

How money is spent is as important as how much. California's baseline budget approach locks in funding for most programs. But there is ample evidence that shifting funding to relatively inexpensive, cost-effective prevention strategies, can reduce the need to fund expensive services to respond to problems. Flexible spending structures that allow counties to move money across programs, that create incentives for prevention and the reduction of local and state costs, can dramatically extend the value of existing budget allocations.

Limited, reliable funding is more valuable than cycles of forced cuts and temporary windfalls. Budget swings shift valuable attention away from long-term, goal-oriented strategies to deal with short-term emergencies, to patch shortfalls or spend new-found but temporary riches. Policy-makers that can commit to a sound and stable investment in health and human services can allow administrators and service providers to dedicate their energy to meeting goals.

Accountability and oversight should be meaningful.

To improve the performance of health and human services and outcomes, state leaders must understand the needs of clients and how the complex interactions of policy, funding, and practice support particular outcomes. State operations and funding mechanisms need to be re-engineered. And policy-makers must use data to drive decision-making. Moving forward with reforms will require policy-makers and administrators to continuously assess and benchmark performance. And they need valid, reliable information to guide their efforts.

Policy-makers must find value in performance measures. They need information that can guide decisions on when, where and how additional funding or policy changes can best improve outcomes. Service providers and administrators need information that indicates which approaches are successful, and at what cost. And the public – if they are expected to provide continued support for programs – must recognize the value of public funding and efforts to improve outcomes.

Compliance monitoring is important as well, but it must be part of an overall strategy to understand what is working, what is not and where improvement is needed. And compliance monitoring must move beyond rote examination of whether or not the rules are followed. It should provide meaningful information on the fidelity of administration, fiscal operations and services to rules and regulations designed to ensure quality outcomes. Monitoring should be geared to improve both operations and the rules and regulations that guide them.

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